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USTR Releases Inventory of Japanese Market-Access Barriers

Greater access to the Japanese market has been the cornerstone of the Reagan adminstration's Japan policy since shortly after the inauguration. Only last week, however, did U.S. trade policymakers publicly identify the full array of Japanese regulations, practices and procedures that they feel limit the inflow of goods, services and investment from the United States, whether by design or unintentionally. The list, prepared for Congress by the Office of the United States Trade Representative (USTR), includes a by now familar inventory of barriers that result from Japanese government import policies: high tariffs on wood products, tobacco products and a number of other products of significant interest to U.S. exporters; quantitative import restrictions on 27 groups of commodities or products, especially beef, citrus and leather, and the lack of transparency in administering these quotas; informal controls on imports of petroleum products, naphtha and feed grains and tariff quotas for several agricultural commodities; and time-consuming customs-clearance procedures, particularly the need to obtain import approval from other Japanese government agencies before Customs can start its clearance process. The list also contains the well-documented impediments to trade created by Japan's restrictive standards and approval procedures as well as the buy-Japanese procurement policies of certain government agencies, and the problems created by state trading in tobacco products, food grains and data-processing and telecommunications services.

What differentiates USTR's catalog of government-created barriers from other listings, including that by the Japan Economic Institute (see JEI Report No. 5A, February 5, 1982), is that it explores the impact of Japanese government regulatory and industrial policies on trade in goods and services and investment. In the regulatory area, USTR identifies cartels or cartel-like behavior as one possible obstacle to the free flow of trade and investment, but admits that the affect of these activities on imports is probably limited. It also finds that foreign securities firms and commercial banks are now treated like domestic institutions in Japanese regulations. Where regulatory actions do affect market access, the report states, is in the area of licensing American insurance firms to do business in Japan ("an unnecessarily lengthy and complex process") and in the field of foreign investment ("very little transparency to the investment screening process"). USTR points out in addition that the ability of foreign borrowers to obtain yen financing in the Japanese market, both through the commercial banking system and the bond market, is limited because of administrative controls.

Perhaps the most interesting part of the report is the discussion of the consequences of Japanese industrial policy on trade and investment. The trade policy panel readily acknowledges that the policy tools adopted by Japan's government to foster the growth of strategically important industries are not devised specifically to restrict or exclude foreign participation in the Japanese market, but it argues that limited market access is often the practical result. Singled out for particular attention in this regard is the potential multiplier effect of the combination of industry targeting, government-sponsored cooperative research and development programs, and administrative guidance.

Also of interest is the inventory of private-sector barriers to trade. Here the report goes beyond the often-cited obstacles inherent in the buy-national attitude of large numbers of Japanese importers, distributors and end users and the complex Japanese distribution system to address the several ways in which conglomerate groupings of firms (keiretsu) effectively act as brakes on the free flow of goods and services into Japan.

The tone of the report is moderate throughout, and the Japanese government is given credit where due for taking steps to facilitate market access for foreign goods, services and investment. In releasing the catalog of Japanese barriers, however, Deputy United States Trade Representative David Macdonald charged that the Japanese government had not lived up to its commitments to liberalize access to the economy. "Neither the letter not the spirit of the May 28 liberalization measures has been accomplished," stated the exasperated trade negotiator. The constituency for free trade has almost totally eroded in the United States, Mr. Macdonald warned, adding that it can only be rebuilt if the Japanese government moves quickly on the market-access front. "Whether it realizes it or not, the government of Japan is in a race against time."

Susan MacKnight

U.S.-Japan Form Strategic Metals Symposium

U.S. and Japanese participants attended a Tokyo symposium on strategic metals November 8 - 9, the first such meeting of its kind. On the agenda was the subject of bilateral cooperation in securing stable supplies of these resources, which are critical to industrial development and the strength of the Western economies. In attendance at this privately-sponsored conference were Yoshihiro Inayama, chairman of Keidanren, Toru Toyoshima, Director General of the Natural Resources and Energy Agency, William Schneider, Undersecretary of State for Security Assistance, Science, and Technology, Gaston Sigur of the National Security Council, and various representatives from private-sector companies.

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According to Japanese press accounts, Mr. Toyoshima stressed that the two allies should, both for economic and national security purposes, coordinate their procurement of strategic metals such as nickel and cobalt, since together they consume approximately half of the world's supply. In view of the fact that these resources are produced primarily in Eastern Bloc countries, as well as South Africa and Zaire, there is some question as to the stability of supply. Concern therefore has arisen with regard to the establishment of a supply system that can cope with emergencies.

Mr. Schneider, the key U.S. speaker, echoed the same observations. The 1973 oil crisis highlighted the West's vulnerability in this area, and our need for a strategic metal reserve to guard against potential supply interruptions is essential, he later told JEI. Last year, Washington channeled additional monies into fortifying its stockpile, and is encouraging a similar policy among its allies. Energy and natural-resource officials in France and the United Kingdom are said to be interested in this concept as well. The U.S. plan includes 93 strategic items, totaling approximately $12 billion. (In comparison, the Japanese plan includes some 10-12 items, totaling approximately $50 million). Washington would like to obtain within the next five years a three-year stockpile of strategic metals. To illustrate how both countries could cooperate in this endeavor, the Undersecretary explained that the United States could sell some of its surplus metals to Japan, and vice versa, to avoid disruptions in the marketplace.

Barbara Wanner

Depressed Industry Legislation Under Review in Japan

In 1978, Japan passed a law to assist what it described as structurally depressed industries. That law provided a variety of measures, including coordinated cutbacks in production capacity, low-cost loans to facilitate the cutbacks, and legal cartels. Eventually 14 industries cut back production capacity under the law, although not all of them used the financial assistance or formed cartels. Nor, it seems, did all of them overcome their problems; the law is due to expire next June and a replacement is now under discussion that would be aimed directly at several industries covered by the first law.

The Ministry of International Trade and Industry (MITI) has under consideration a proposal for legislation to be submitted to the Diet next spring which would provide assistance to the following eight industries: aluminum smelting, petrochemicals, fertilizer, polyvinyl chloride, open-hearth and electric furnace steel, synthetic textiles, and paper and pulp. Within these broad categories, various arms of these industries had previously attempted to re-structure under the first law, and some were involved in legalized cartels even before 1978.

Measures in the draft proposal include restrictions in productive capacity (to replace the expiring cutbacks), plus a special depreciation fund and government credits to finance the cutbacks. In addition, the intention is to comply with a concept recognized by the OECD called "positive adjustment policy", which says that aid to declining or depressed industries is acceptable if it is aimed at eliminating uncompetitive operations and fostering only those parts of an industry that can be viable in the marketplace. Thus, the draft includes promotion of technical change through larger research and development subsidies, and calls for rationalization cartels to facilitate the joint purchase of raw materials or establishment of joint production ventures.

This proposal is already controversial. The Japan Fair Trade Commission (JFTC) has come out against it, releasing a report which argues that cartels, administrative guidance, and other forms of government involvement have been ineffective in helping structurally depressed industries. The real adjustment, it claims, has been enforced by

the market place. Administered reductions in capacity allow inefficient producers to continue to exist because of "fairness" principles, which only delay real adjustments, JFTC said. Certainly the fact that the industries involved were earlier recipients of assistance under the first law lends weight to this argument.

Aid to depressed industries also has an international angle, and the JFTC is worried that the flexible use of antitrust policy, through sanctioned rationalization cartels, will raise international suspicions. This seems quite likely, since the United States has recently charged that cartels in Japan hinder imports. It is not clear whether international and domestic pressures will force a policy change, but the question of structurally depressed industries is expected to dominate industrial policy discussions in Japan next year.

Edward Lincoln

Competition in Japan's Consumer Credit Market

Japanese consumers borrowed a whopping ¥2.5 trillion ($9 billion) in 1982, a record 35.7 percent gain over the previous year, as the result of ¥17.5 billion (approximately $65 billion) in new extensions of consumer credit. Attracted by the rapid growth of this market, new entrants are moving into the field. Sixty-three regional banks now offer a consolidated bank credit card, in competition with the familiar bank-affiliated card companies. The new card can also be used at cash dispensers and allows holders to borrow money without collateral, in contrast to the more limited shopping function available with the existing credit cards.

Nokyo, the farmer's cooperative, has also announced that it intends to enter the consumer credit market. It plans to offer credit-card services to its eight million members by April of next year. Nokyo has arranged a tie-up with credit card companies affiliated with Mastercard, so that its holders can use their cards overseas. Intensified competition has also prompted the shinpan (credit associations offering a retail shopping card) to boost their membership to 10,450,000, up 38.0 percent over a year earlier and nearly as high as the number of bank-affiliated credit card holders.

Sluggish industrial production and weak corporate demand for capital are restricting the usual lending activities of the banks, which see the consumer loan market as a profitable arm of expansion. Private financial institutions such as banks, security companies and insurance firms have also entered the consumer market indirectly through the provision of capital to consumer loan companies. This rapid increase, warns the Bank of Japan, could endanger the soundness of the banking system. For one thing, there are glaring deficiencies in the credit information system, making it likely that the number of defaults will increase. In a relatively small market compared to the United States, which has five major credit cards, there are already 13 credit cards issued by bank-affiliated companies and the shinpan. A move toward consolidation would simplify the market for card issuers and clients.

Yoshio Nakamura

Profits Decline for Japan's Trust Banks

City banks in Japan have reported a decline in profits estimated by private financial institutions at 16 percent for the first half of FY 1982 (April to September). This trend reflects the competitive edge in acquiring deposits gained by the trust banks and the long-term credit banks as a result of new offerings of tax-exempt certificates and tax-exempt bank debentures. And owing to the Bank of Japan's manipulation of interest rates

in the call market designed to halt any further depreciation of the yen, the city banks have had to borrow short-term funds at higher rates. Even at the higher rates, though, the trust banks and long-term credit banks lending in the call market are losing money.

The trust banks raise long-term funds by issuing "loan trusts" — savings certificates of medium-term maturity. The long-term credit banks' funding is through debentures bought primarily by the commercial banks. Both provide funds on a long-term basis to finance the capital spending and long-term equipment requirements of the manufacturing and construction industries. These trust banks and long-term credit banks, whose new deposits are called "Big" or "Wide" to convey the higher yield offered by optimum use of the tax exemption, are also suffering from reduced profits of 21.8 percent for the trust banks and 16.6 percent in the case of the long-term credit banks.

The Bank of Japan's deposit statistics show an increase in total individual bank deposits during the April to June period of only 1.1 percent over the same period of the previous year. However, deposits in trust banks increased by 41.4 percent, while deposits in city banks declined by 26.5 percent. In September, when interest rates on loan trusts were raised by 0.5 percent, interest-sensitive depositors fled the city banks and the increase in trust bank deposits shot up to ¥2,960 billion (aproximately $10.7 billion), 22.1 percent above year-earlier levels.

Although funds from these long-term deposits (usually five years) are generally allocated to finance long-term capital spending, such loans declined by 17.8 percent in the first half of the fiscal year and were only 14.8 percent of the total amount of funds raised in the period. These financial institutions were therefore forced to either purchase bonds, provide funds to the short-term call market, or make short-term loans available, which in fact did increase by 37.0 percent. But because interest rates for short-term loans or call money are below current interest rates paid on trust certificates, these institutions are losing money on this part of their operations, hurting their overall profit position. With less demand for credit, this group of trust banks is growing less eager to lure new deposits.

Yoshio Nakamura

EPA Report on Japan in the 21st Century Generates Lively Discussion

A committee sponsored by the Economic Planning Agency has reported on Japan in the 21st century, stimulating debate about the country's future prospects in areas ranging from economic growth and high technology to social values. This is the second report commissioned by the agency (the first was published 20 years ago), and stands in sharp contrast to that study, which anticipated the high economic growth period. The agency predicted that Japan will emerge as an aging society in the 21st century, that economic growth will be a moderate 4 percent, and that economic and social trends will grow to resemble those in Europe and the United States.

One priority for the task force was to define what it termed the "internationalization" of Japan, based on the nation's degree of industrial power and its increasing economic and political status. Because the effort to transform the country from a passive to a leadership role would be painful, Japan's strategy, according to the report, should focus on revitalization of the world economy according to free-trade principles. In this global drive, Japan would seek economic growth by stimulating domestic demand and increasing technological cooperation and direct overseas investment. It suggests further liberalization of the domestic market, while at the same time ameliorating the problems of declining domestic industries wounded by foreign competition. The report calls on academic institutions to integrate foreign faculty members

and students, emphasize Japan's expanding international role, and concentrate more on students returning from abroad. Japan should also be active in North-South issues and increase the amount of economic assistance by both the private and public sector.

The writers emphasize the importance of the vitality of the social system and the question of human resources. For example, the role of government should not be too large, the report warns, since that tends to discourage the private sector, increase taxes, distort the distribution of wealth, and lower productivity in the public sector. It notes, however, that compared with other industrially advanced countries, Japan has a relatively small government. The ratio of government expenditure against GNP in Japan was 31.8 percent in 1979, compared with the United States (33.5 percent), the United Kingdom (43.1 percent), West Germany (44.3 percent) and France (44.9 percent). However, the report warns that in recent years, the situation has been changing rapidly, pushing up government expenditures to a point which might cause problems similar to the ones faced by the United States and Europe.

Structurally, the report predicts the evolution of the economy, projecting a small but modern and productive agricultural sector, a vigorous manufacturing position, expanding service industries and new, high-technology leadership in industries such as life science. On the other hand, the heavy equipment industry will be forced to seek competitive technology and the auto makers, while remaining a major component, will experience less explosive growth. Such changes were held to be the usual course of any country as it progresses. Recognizing that the newly developed countries will go through the same process, the report reflects the difficulties involved in moving into a high-technology era without damaging those sectors which are caught in between.

While such long-term forecasts might be considered merely intellectual exercise, Japanese policy makers are inclined to welcome such activity. Since it involves different sectors, the analysis serves as a sounding board to stimulate wider discussion by the press. And while the effects are not visible, it may well make a significant contribution because the coverage often serves as a catalyst for a more general consensus. The Economic Planning Agency does not usually attempt to influence acceptance of the conclusions of the reports, but remains in the background, as do all other ministries, reviewing and analyzing the material in individual committee meetings.

Fumiko Mori

Foreign Ministry Gives Aid Projects Mixed Reviews

Last month the Foreign Ministry completed its first evaluation of Japan's foreign economic assistance program and generally awarded it high marks. In the case of programs to some of the poorest countries, such as Bangladesh and Nepal, however, it recommended some "self reflection", since the aid provided evidently did not complement the technical capacities or local manners and customs of the recipient countries. Of the 99 cases under review, the ministry concluded that the results achieved in transportation facilities, communication improvements, medical and educational facitities were effective in enhancing the economies of the targeted countries.

Not long after Tokyo embarked on its plan to double funds for official development assistance (ODA) during the next five years, the Foreign Ministry undertook an evaluation to determine whether the development aid was achieving desired results. This first report was based on field surveys undertaken by officials in the various recipient countries. According to Nihon Keizai Shimbun, the surveys covered 20 countries, including Thailand, Malaysia, Indonesia, Bangladesh, Egypt and Mexico, and included 22 yen-funded projects, 26 grant programs, and 38 projects involving technological cooperation. The report showed good progress in a communications training center in Thailand and a hospital in

Sri Lanka, but faulted Tokyo for insufficient knowlege of conditions in the poorest countries, which would have improved the quality of assistance to more adequately meet the recipient's actual needs.

Tentative plans are underway for another round of high-level aid discussions between the United States and Japan in January 1983. There are indications that U.S. officials are concerned that the continued depreciation of the yen, compounded by the government's budget-cutting drive, may inhibit Tokyo's attainment of its aid target. Washington has supported an expanded Japanese aid program not only in the interests of security, but also to help stretch free-world aid monies to less-developed countries in Asia, Africa, the Middle East and Latin America during a time of fiscal austerity.

Barbara Wanner

IEA Releases Long-Term World Energy Outlook

Looking forward to the year 2000, a long-term energy analysis published by the International Energy Agency (IEA) forecasts that a tight oil market may not be far off. The study predicts an end to the current oversupply by the late 1980s. Rising energy demands will reduce available supplies as increased energy consumption by OPEC members and other developing nations and declining oil production in North America, the North Sea and the Soviet Union put a crimp in shipments of this vital natural resource. The OPEC nations' production is itself expected to decline slightly.

On the other hand, the OECD countries will gradually increase their energy requirements until 1985, after which the pace in consumption will accelerate. The world oil supply, excluding the communist countries, will reach 50 million barrels per day (BPD), to a maximum in the 1990s of 53 million BPD. While OPEC will maintain oil production at 28 million BPD by 1990 (about half of the total supply), production within the OECD countries (15 million BPD at present) will decline from the mid- 1980s. OECD will continue to import 21 million BPD throughout the 1980s. To date, the most promising alternative resource is coal, and if the present price advantage is maintained, its share of demand in the OECD countries will jump from 21 percent to 30 percent by the year 2000. Similarly, natural gas, nuclear energy and hydroelectric power will also increase their shares.

The IEA report warns that declines in oil prices due to the glut might send misleading signals to both consumers and investors. Should this delay the pace of developing alternative energy, the costs will be very high, it notes. On the other hand, the OECD countries as a group have succeeded in reducing their rates of energy and oil consumption — by 8 percent in 1980 and another 7 percent in 1981. As a result, OECD oil consumption declined by 6 million barrels per day between 1979 and 1981. The IEA analysis did not, however, suggest that energy policies were responsible for the decline, by rather that the cutbacks were achieved by a drawdown of stockpiles, auspicious weather conditions, and weak economic growth -- the main reason that demand for oil was so modest.

As for the future, the outlook emphasized the importance of the market mechanism and the need to proceed with alternative energy development. IEA's gloomy view of the oil market and concern that the slow pace of alterative energy development might not meet future needs parallels the concerns of Japanese policy makers. Last April the government revised its long-term energy projection to reduce oil dependence from 1980's 66 percent of total energy demands to 38 percent by the year 2000, and to increase the use of coal to 19 percent (from 16.7 percent), nuclear energy (from 5 percent to 18 percent), and natural gas (from 6 percent to 11 percent).

The country should not be deceived by the present oil glut, says the former Director General of the Natural Resources and Energy Agency. The government would like to encourage the domestic oil industry to move forward into technological developments in energy that have potential commercial applications, although the flat sales projected for the future are a serious disincentive.

Fumiko Mori

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1980	1981	January-September 1981	January-September 1982	July 1982	August 1982	September 1982
Japan's Balance of Payments							
Trade Balance	$ 2,125	$ 19,967	$ 14,282	$ 13,490*	$ 2,329*	$ 984*	$ 2,426*
Exports (f.o.b.)	126,736	149,522	110,400	104,186*	11,921*	10,405*	11,650*
Imports (f.o.b.)	124,611	129,555	96,118	90,696*	9,592*	9,421*	9,224*
Current Account Balance	-10,746	4,770	2,910	4,514*	1,411*	-30*	1,463*
Long-Term Capital (net)	2,394	-6,449	-4,330	-15,035*	-1,959*	-2,286*	-416
Overall Balance	-8,396	-2,144	-771	-6,744	-499	-397	823
International Reserves (end of period)	25,232	28,403	27,980	24,009	25,669	24,416	24,009
Japan's Customs Clearance Trade							
Trade Balance	-10,721	8,741	5,292	4,720*	1,279	-40	1,557*
Exports (f.o.b.)	129,807	152,030	112,314	105,106*	11,958	10,421	11,623*
Cars	16,115	18,445	13,933	13,600*	1,558	1,266	1,453*
Steel	15,454	16,669	12,077	12,287*	1,361	1,218	1,235*
Imports (c.i.f.)	140,528	143,290	107,022	100,386*	10,679	10,461	10,066*
Crude Oil	52,763	53,343	40,488	34,630*	3,385	3,560	3,327*
Japan-U.S. Trade							
Trade Balance	6,959	13,312	9,172	9,175*	1,106	693	1,290*
Exports (f.o.b.)	31,367	38,609	27,935	27,706*	3,232	2,704	3,197*
Imports (c.i.f.)	24,408	25,297	18,763	18,531*	2,126	2,011	1,907*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	¥203.00	¥219.90	---	---	¥257.50	¥261.70	¥269.50
U.S.-Japan Trade							
Trade Balance	-9,911	-15,789	-11,626	-13,744	-1,112	-2,082	-1,336
Exports (f.a.s.)	20,790	21,823	15,959	15,544	1,777	1,732	1,568
Industrial Supplies	9,501	8,983	6,417	6,765	674	733	624
Food and Feed	5,393	5,896	4,512	3,745	429	500	434
Capital Goods	4,340	4,767	3,481	3,314	489	314	337
Consumer Goods	1,154	1,318	996	1,030	117	114	111
Imports (f.a.s.)	30,701	37,612	27,585	29,289	2,888	3,814	2,905
Automotive Products	11,436	12,950	9,763	9,934	1,087	1,266	920
Industrial Supplies	5,926	7,179	5,233	5,608	529	689	503
Consumer Goods	6,198	8,340	6,025	5,953	526	819	648
Capital Goods	6,555	8,589	6,181	7,242	701	983	783

*Preliminary

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1980	1981	January-August 1981	January-August 1982	June 1982	July 1982	August 1982
Discount Rate (end of period)	7.25%	5.5%	6.25%	5.5%	5.5%	5.5%	5.5%
Outstanding Money Supply	8.5%	8.9%	8.1%	9.7%	8.8%	9.3%	9.0%
Industrial Production	7.0%	3.1%	1.8%	2.2%	1.3%	1.1%	1.5%
Manufacturing Operating Rate	0.7%	-4.6%	-6.1%	-1.9%	-2.9%	-3.3%	-2.9%
Number of Bankruptcies	11.6%	-1.5%	0.9%	-3.2%	-1.2%	-3.4%	-3.5%
Residential Construction Starts	-15.0%	-9.2%	-11.1%	-4.9%	-1.9%	7.8%	5.0%
Job Openings to Applications (ratio)	0.75	0.68	0.68	0.62	0.58	0.58	0.58
Nominal Wages	6.3%	5.3%	5.2%	5.1%	3.5%	4.7%	8.0%
Labor Productivity	9.1%	3.5%	2.5%†	2.5%†	2.3%	n.a.	n.a.
Wholesale Prices	17.8%	1.7%	1.9%	1.9%	1.1%	1.3%	1.0%
Consumer Prices	8.0%	4.9%	5.4%	2.7%	2.2%	1.7%	3.1%
Yen-Based Export Prices	9.3%	1.9%	0.2%	4.5%	3.2%	1.8%	0.5%
Yen-Based Import Prices	43.0%	3.0%	1.1%	7.3%	5.2%	5.7%	6.0%

†Through June of each year only.

For Japan's most recent GNP figures, see JEI Report No. 36B, September 17, 1982.